



Spring 2005

MESSAGE FROM THE ACTING GOVERNOR



Richard J. Codey New Jersey has long been a health care leader, with nationally acclaimed hospitals, medical schools, and researchers working on cancer cures and stem cell solutions. There is one area, though, where we have failed thousands of ailing citizens -- mental health. I vow to change that.

I am proud of the redirection of Greystone Park Psychiatric Hospital. It is a project for which the Department of Human Services, the Treasury, the Economic Development Authority, and the Health Care Facilities Financing Authority have joined forces to turn a fading mental health facility into a new hospital and caring home for up to 510 individuals.

In addition, I proposed a \$200 million housing trust fund to create 10,000 affordable residencies for individuals with mental illness and other disabilities. My plan also offers student loan forgiveness for college graduates who work in a State, County, or non-profit mental health or social service agency.

Further, the nation as a whole has been slow to respond to postpartum depression ("PPD"). Ten to 20 percent of all new mothers struggle with PPD, and their entire families are affected by it. With no organized protocol for it, the U.S. lags behind most other developed countries in PPD education, support and treatment. This needs to change.

I want New Jersey to be the first state to commit resources to underinsured new mothers for PPD screenings and treatment. We also need to teach physicians, practitioners and nurses to recognize its signs and symptoms.

One in five New Jerseyans will suffer from mental illness in his or her lifetime. We have allowed these disabilities to chip away at our citizenry for too long. I applaud the Authority for joining my Administration in these efforts and I look forward to a brighter future for all of New Jersey as a result. §

NEW AUTHORITY PREVAILING WAGE REGULATIONS

The New Jersey Prevailing Wage Act, N.J.S.A. 34:11-56.25 et seq., requires that construction workers (such as carpenters, plumbers, power equipment operators, laborers, etc.) receive the appropriate basic hourly rate of pay and benefits. The Act enables the Department of Labor and Workforce Development to establish and enforce prevailing wage levels, specific to craft and region, in order to safeguard the workers' efficiency and protect them from unfair competition.

While the Authority was not specified in the original Act, last August Governor James E. McGreevey signed A1819, P.L.2004, c.127 into law extending prevailing wage requirements to projects of county improvement authorities, the Casino Reinvestment Development Authority, the Educational Facilities Authority, and the Health Care Facilities Financing Authority.

The Act states, "The New Jersey Health Care Facilities Financing Authority shall, in consultation with the Commissioner of Labor and Workforce Development, adopt rules and regulations, consistent with the rules and regulations adopted by the Commissioner of Labor and Workforce Development pursuant to P.L.1963, c.150 (C.34:11-56.25 et seq.), requiring that not less than the prevailing wage be paid to workers employed in the construction or rehabilitation of facilities undertaken in connection with loans, loan guarantees, expendi - (continued on page 8)

CFO PANEL MEETS: Discusses Terrorism Prevention at Hospitals

The Authority's CFO Advisory Panel met last November to discuss techniques to prevent terrorist attacks on health care facilities. Special guests James Blumenstock (Deputy Commissioner, Public Health Protection and Emergency Preparedness) and David Gruber (Assistant Commissioner, Health Emergency Preparedness and Response Program) were invited from the Department of Health and Senior Services to present to the Panel.



James Blumenstock (left) and David Gruber

Mr. Blumenstock began by explaining that a Domestic Security Preparedness Task Force was established by the New Jersey Domestic Security Preparedness Act (October 2001) to identify and assess potential infrastructure risks and expand capital to deal with mass casualties and destruction.

Within the Task Force, a Domestic Infrastructure Advisory Committee identified health care as one of 20 most crucial private industries in terms of New Jersey's economy and well- (continued on page 4)



The Panel providing feedback to representatives of the Department of Health and Senior Services and Authority staff

MESSAGE FROM THE EXECUTIVE DIRECTOR

The adage "the more things change, the more they stay the same" has taken on new meaning for me since our last newsletter.

Changes include the departures of Clifford R. Lacy, M.D. as Commissioner of Health and Senior Services and Chair of the Authority, and of Holly Bakke, J.D. as Commissioner of Banking and Insurance and Authority Member. Their exits are tempered by the arrival of Fred M. Jacobs, M.D., J.D., as Commissioner of Health and Senior Services and Donald Bryan as Acting Commissioner of Banking and Insurance, who now serve as Authority Chair and Member, respectively.

Also, John Kerr, who served the Authority so well as Commissioner Bakke's designee, has retired. Maryann Kralik was designated as his successor.

While it saddens me to see Commissioners Lacy and Bakke and Mr. Kerr leave, our distinguished newcomers are welcome additions and I look forward to their guidance and input.

Another change is a reorganization of the Authority's staff structure. The Division of Research and Investor Relations has added Compliance to its description, and as a result, Susan Tonry has moved from Assistant Director of Operations to Assistant Director of Research, Investor Relations and Compliance. Also, the Division of Operations will now be known as the Division of Operations and Finance to more accurately reflect its duties.

On the subject of staying the same, two employees celebrated milestone anniversaries recently. Both Administrative Assistant Mae Jeffries-Grant and Senior Account Administrator Wanda Lewis marked 20 years of service with the Authority in February. We are proud to have two such dedicated and talented individuals on staff.

The Authority's history of staff retention suggests that our employees are proud of our mission and pleased to work with one another on its achievement. Such commitment and dedication benefits New Jersey's health care community, which reaps the rewards of their experience and devotion.

I continue to welcome feedback from the health care community regarding issues facing the industry. Please contact the Authority if you would like to schedule a meeting with me or a member of the Authority's staff. §

JACOBS NAMED NEW DHSS COMMISSIONER:

Chairman of the NJHCFFA

In February, Fred M. Jacobs, M.D., J.D., was confirmed as Commissioner of the New Jersey Department of Health and Senior Services. After his nomination by Acting Governor Richard J. Codey, Dr. Jacobs began serving as Acting Commissioner to the Department in December of 2004. As stated by the Authority's enabling legislation, the Commissioner of Health and Senior Services serves as Chairman of the Authority during his or her tenure as Commissioner.

On December 16, 2005, Dr. Jacobs attended his first Authority meeting where he stated that the Authority's mission is very important to him, and that he is pleased to accept his new role to work with the organization.



Fred M. Jacobs, M.D.

Dr. Jacobs received his bachelor's degree from Colgate University and his medical degree from the University of Miami School of Medicine where he

was elected to the Alpha Omega Alpha Honor Society.

He trained in internal medicine at Maimonides Medical Center and Mt. Sinai Hospital in New York City, and completed a pulmonary research fellowship at the University of California San Francisco Medical Center and a chief residency in pulmonary disease at Kings County Hospital Center in New York. He is Board Certified in both Internal Medicine and Pulmonary Disease, and is a Fellow of the American College of Physicians, the

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BAKKE RESIGNS FROM DOBI; BRYAN APPOINTED AS REPLACEMENT

Also, Authority DOBI Designee Retires

On February 1, 2005, Commissioner Holly C. Bakke, J.D. submitted her letter of resignation announcing that her departure from the New Jersey Department of Banking and Insurance ("DOBI") would be effective March 1st. Acting Governor Richard J. Codey appointed Donald Bryan, J.D. to serve as the Acting Commissioner upon Ms. Bakke's exit. The Authority's enabling act requires that the Commissioner of Banking and Insurance be an Authority Member.

Ms. Bakke attributed the resignation to a desire to spend more time with her family and get involved with her community. Appointed Commissioner of DOBI in February of 2002, Ms. Bakke served under two Administrations, and contributed to numerous State improvements, including but not limited to auto insurance reform, citizen protection from predatory loans, and initiatives for affordable health care.

Though Ms. Bakke leaves a difficult act to follow, Mr. Bryan is a seasoned DOBI employee, whose experience with the Department will be an asset to the Authority and all State agencies with whom DOBI interacts. Employed by DOBI since 1982, he has served in the capacities of Assistant Commissioner, Legislative and Regulatory Affairs; Director of Regulatory Affairs; Regulatory Officer; Director of Insurance Licensing and Education; Executive Assistant in the Office of the Deputy Commissioner; and Assistant to the Director of the New (continued on page 4)



Holly Bakke (left) was replaced by Donald Bryan as the head of the Department of Banking and Insurance

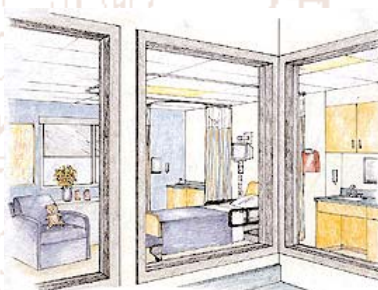


FINANCING NOTES

On December 3, 2004, the Authority closed a \$60,000,000 transaction on behalf of **Virtua Health, Inc.** ("Virtua"). As the parent company of Virtua-West Jersey Health System, Virtua operates general acute care hospitals in Berlin, Marlton and Voorhees, in addition to Virtua-Memorial Hospital Burlington County in Mt. Holly.



Virtua's Marlton Campus - rendering of the expanded lobby



Virtua's Voorhees Campus - rendering of the pediatric unit



Virtua's Berlin Campus - rendering of the new ICU

The bond proceeds will be used to fund numerous upgrades including: a new ICU, an expanded lobby, a cardiac catheterization lab, and a new wing to house a 24-bed post-interventional care unit at the Marlton campus; interior renovations including labor and delivery suites, a postpartum unit, a neonatal and pediatric intensive care unit, and expanded operating rooms at the Voorhees campus; and interior renovations and restoration work including an intensive care unit, a progressive care unit and a pulmonary and adult care unit for the elderly at the Berlin campus.

The proceeds will also be used for information technology enhancements at all the hospital campuses and to refinance a prior Authority loan.

Secured by a Wachovia Bank direct pay letter of credit, the bonds were rated

"Aa2/VMIG1" by Moody's Investors Service and were issued as weekly variable rate securities.

Interest rates on short-term bonds have been primarily rising since early 2004 when rates had been below 1%. The Bond Market Association index was at 1.55% at the time of Virtua bond transaction; Wachovia offered the bonds at 1.53%. Generally, interest rates on Authority variable rate securities are at or below the BMA index level.

In order to allow the borrower some flexibility to respond to interest rate changes, the bonds have the ability to be converted to a credit-enhanced fixed rate structure.

The Authority closed a \$104,000,000 transaction on behalf of **Saint Clare's Hospital** on December 16, 2004.

The proceeds will fund numerous upgrades including construction for and renovations to the Emergency Unit at the Dover campus and the Obstetrics Unit at the Denville campus, as well as heating, air conditioning, electrical and other infrastructure improvements in Boonton. The proceeds will also refund bonds issued in 1994 and 2003 to take advantage of lower interest rates.

The bonds were broken into two series (or "tranches"), allowing the borrower additional flexibility to react to interest rate changes. Both tranches are credit-enhanced: one is insured by Radian Asset Assurance which carries a double A rating, and the other is insured by MBIA which carries a triple A rating.

Wachovia Bank served as senior manager for the transaction, while Merrill Lynch, Morgan Stanley, NW Capital (a division of Windsor Financial Group) and Powell Capital Markets, Inc. served as co-managers. The managers agreed



Saint Clare's Boonton campus



Saint Clare's Denville campus



Left to right: Wachovia's Kari Fazio, NJHCFFA's Bill McLaughlin, and Parker, McCay & Criscuolo's Lynn Besancon at Saint Clare's purchase contract signing that a retail order period could be helpful. Over \$18 million of orders were taken on December 7th.

The market held steady overnight and the managers went out with an order period on the following day with a structure composed of serial bonds through 2023 and a two-year term bond in 2025.

Orders were sporadic with the pricing hampered in some respects by the supply of other New Jersey paper in the market over the prior two weeks. Sufficient

orders were obtained, however, and the managers offered to purchase the bonds with yields ranging from 2% to 4.83%. The all-in interest cost of the issue was 5.00%.

Gary Blau, Chief Executive Officer of the hospital, thanked the Authority staff and Members for their work on the financing. He added, "There is great growth going on at Saint Clare's and the Authority will be proud of the projects for which it has been able to provide."

On March 18, 2005, the Authority closed a \$13,835,000 transaction on behalf of **Recovery Management Systems, Inc.** ("Recovery"). Recovery was created to own and operate a facility to be used by two non-profit organizations: Discovery, which provides residential and outpatient substance abuse treatment programs, and The New Hope Foundation, which serves (continued on page 7)

CFO PANEL

(continued from page 1)

being. The Committee developed a "Best Practices" document on preventing, responding to and recovering from a terrorist attack, and distributed it to all New Jersey hospitals.

Because the State does not have adequate means to fund target hardening (i.e. securing the facilities against terrorism), the Task Force developed a 3-tier system to ensure that the most vital facilities in the State get Federal funding. Tier 1, deemed most potentially catastrophic, is comprised of ten hospitals and one burn center.

Tier 1 facilities will be asked to provide the Attorney General's Office with a vulnerability assessment, a plan for preparedness upgrades, and a tight emergency response plan. Mr. Blumenstock warned that there will be a Zero Tolerance Policy for non-compliant Tier 1 facilities.

Mr. Gruber discussed the capital needed to provide target-hardening upgrades. He outlined monies available through both State and Federal means, though, for the most part, he spoke of the unavailability of funds to upgrade hospital defenses. For example, the Homeland Security Fund paid to increase hospital capacities to respond to mass victims; it did not fund prevention of a terrorist attack on a hospital.

Health care facilities compete for funding with law enforcement, fire fighters, and other professions more commonly associated with terrorism preparedness. Mr. Gruber recommended that the hospital

The CFO Advisory Panel is a forum in which hospital financial executives can respond to Authority products, procedures, and current hot topics. The Panel members include:

- Greg Adams, Holy Name Hospital
- Ron Guy, Capital Health System
- Rich Keenan, Society of the Valley Hosp.
- Jim Nolan, Jr., Atlantic City Medical Center
- Bill Phillips, Meridian Health System
- Bob Segin, Virtua Health, Inc.
- Stella Visaggio, Hackettstown Comm. Hosp.

community support the Department of Health & Senior Services' efforts to get funding for hospital target-hardening.

Greg Adams, CFO at Holy Name Hospital, asked if it was possible for hospitals to receive subsidized financing. He

Some key elements of facility target-hardening were identified as:

- **Access Concerns-** take an all-hazard approach; create redundancy through multiple check points; issue visitors temporary digital photos on ID cards instead of sticker tags
- **Operational Vulnerability-** ensure adequate power as well as auxiliary power
- **Physical Defenses-** build barriers and blast standoff provisions; line windows with mylar
- **Intrusion Security-** maintain closed circuit monitors in the hospital and its parameter to detect intruders; light areas adequately for video or patrol surveillance
- **Business Continuity-** secure cyber space documents; watch off-sight storage of critical files

stated, "It would be helpful to the hospitals to be able to pre-define the upgrade areas and finance the capital expenditures up front."

Mark Hopkins noted that staff was working to develop a low cost tax-exempt financing vehicle. He promised to look into

whether some form of subsidy from the State might be available specifically for target-hardening projects.

The Panel listed several issues to consider when developing a specialized financing vehicle for terrorism prevention at health care facilities, including:

- Certification should state that the expenditure is demanded by the Emergency Preparedness Plan and is not an ordinary capital expenditure;
- Criteria to determine who can apply should be based on the project(s) described in the proposed financing;
- Costs to staff adequate personnel for training and overtime in an attack or a false alarm is significant and requires financial assistance, if possible; and,
- Contractors, such as architects, should be informed of the requests made on the hospitals by the Domestic Infrastructure Advisory Committee.

Mr. Gruber reminded the CFOs that a key defense against terrorism is mental preparation. Fortunately, speaking in terms of "when" a facility is attacked instead of "if" requires no cost.

Authority staff was pleased and motivated by the Panel's support for a low cost or subsidized terrorism preparedness financing vehicle. The Authority will continue to research the feasibility of a new terrorism preparedness product with the Panel's concerns in mind. §

DOBI PERSONNEL

(continued from page 2)

Jersey Real Estate Commission. In November 1999, Mr. Bryan received a Gubernatorial appointment as Director of the Division of Insurance and was confirmed with the advice and consent of the Senate.

In an unrelated move, John Kerr, the Authority's DOBI designated representative, announced his retirement. He attended his final Authority meeting on January 27, 2005. The Authority's ex-officio members are permitted to designate long-term representatives to attend meetings and vote on their behalf. Mr. Kerr began representing the Commissioner of Banking and Insurance as a Member of the Authority intermittently in 1997 and was appointed to serve as the ongoing designee in 2001.



Left to Right: Public Member Gustav Edward Escher, III; Human Services Designee Freida Phillips; former Banking and Insurance Designee John Kerr; Public Member Noreen White; Health and Senior Services Designee Edward Tetelman

Over the past eight years, Mr. Kerr has represented Commissioners Elizabeth E. Randall, Jaynee LaVecchia, Karen L. Suter, and Holly C. Bakke at Authority meetings. As such, he provided guidance and expertise on a variety of subjects including traditional insurance programs, captive insurance companies, self-insurance trusts, and pension issues. The Authority adopted a Resolution of Appreciation on behalf of Mr. Kerr and presented a certificate reflecting the resolution at his final meeting.

Acting Commissioner Bryan appointed Maryann Kralik to replace Mr. Kerr as Designee. Ms. Kralik began her service with the Authority at the February 24, 2005 meeting. §

RWJ at HAMILTON RECEIVES 2004 BALDRIDGE AWARD

Robert Wood Johnson University Hospital at Hamilton ("RWJ Hamilton") was awarded the esteemed Malcolm Baldrige National Quality Award, as announced by President George W. Bush and Commerce Secretary Don Evans on November 23, 2004.



Robert Wood Johnson University Hospital at Hamilton

The Malcolm Baldrige National Quality Award is the nation's only Presidential award to recognize performance excellence across all industries. RWJ Hamilton made history as the first and only New Jersey hospital to receive the award, the first New Jersey company to receive the award since 1994, the State's fourth business ever to be recognized by the Baldrige Program, the only health care recipient of the award for 2004, and one of only four health care organizations chosen as a recipient since the health care category was established in 1999.

The 2004 recipients were selected from among 60 applicants. Recipients must meet structured criteria for performance excellence that is not only measurable across any industry, but also can be used to achieve overall quality improvement.

All four 2004 recipients were evaluated rigorously by an independent board of examiners in seven areas: leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resources; process management; and results. The evaluation process included about 1,000 hours of review and an on-site visit by teams of examiners to clarify questions and verify information in the applications.

"Part of this award is about sharing the journey," said RWJ Hamilton President and CEO Christy Stephenson. "We have benchmarked with previous Baldrige recipients in and out of health care and that has been a valuable learning experi-



Christy Stephenson

ence for us. We want to share the same."

RWJ Hamilton was commended by Acting Governor Codey as well as the then sitting Commissioner

of New Jersey's Department of Health and Senior Services, Clifton R. Lacy

M.D. who stated, "This is not just a momentous occasion for RWJ Hamilton or the Robert Wood Johnson Health System, it is a momentous occasion for health care in New Jersey."

The three other 2004 Baldrige Award recipients are: The Bama Companies, Tulsa, Oklahoma (manufacturing category); Texas Nameplate Company, Inc., Dallas, Texas (small business category); and Kenneth W. Monfort College of Business, Greeley, Colorado (education category). §

AUTHORITY ABLE TO FINANCE CPOEs:

A Valuable Tool for Hospital Patient Safety

Computerized physician order entry ("CPOE") systems have been identified as one of three improvements hospitals can make to substantially reduce preventable medical deaths, according to The Leapfrog Group*. Rather than submitting medication orders on paper, CPOE allows physicians to enter the orders into a computer, which then integrates that information with patient data including laboratory and prescription records.

CPOE reduces medication errors by:

- providing physicians with a reference of medications, complete with default doses and potential doses for each;
- ensuring that all drug orders are legible and display patient-specific, relevant laboratory results onscreen at the time of ordering; and,
- checking for drug-allergy contradictions and drug-drug interactions.

Though proven to be effective for the prevention of fatal medication errors, hospitals may balk at acquiring CPOE when faced with the cost of implementation. According to First Consulting Group's Computerized Physician Order Entry: Costs, Benefits and Challenges (January 2003), "Based upon analysis of the data from the case study sites and a set of assumptions, the study presents

a representative cost model for implementing CPOE at a single, 500-bed hospital. This model estimates total one-time capital plus operating costs of \$7.9 million and annual ongoing costs of \$1.35 million."

There was some initial concern that the Authority may not be able to issue bonds for CPOE implementation. However, upon initial review of the CPOE product, staff and the Deputy Attorney General's office perceive no difficulties in financing most components of such a project. If you are interested in pursuing the issuance of bonds to fund CPOE, contact the Authority's project management team at (609) 292-8585. §

**The Leapfrog Group is composed of more than 110 public and private organizations that provide health care benefits. It works with medical experts throughout the U.S. to identify problems and propose solutions to improve hospital systems that could break down and harm patients. Representing more than 32 million health care consumers in all 50 states, Leapfrog provides important information and solutions for consumers and health care providers.*

For more CPOE information go to:
www.leapfroggroup.org/media/file/Leapfrog-Computer_Physician_Order_Entry_Fact_Sheet.pdf

or

www.hospitalconnect.com/aha/key_issues/patient_safety/contents/cpoerep030123attach.pdf

NJHCFFA STAFF NOTES



Mae Jeffries-Grant



Wanda Lewis

Congratulations to Administrative Assistant Mae Jeffries-Grant and Senior Account Administrator Wanda L. Lewis who each completed their *twentieth* year of service with the Authority, and to Information Technology Specialist Emerson E. Sullens (a.k.a. Gene) for completing his fifth.

The Authority is proud of its committed staff members. Ms. Grant, Ms. Lewis and Mr. Sullens were acknowledged before both staff and the Authority Members for their dedication.

The Authority's low turnover rate strengthens its productivity, and the friendly bonds developed between the employees foster a pleasant work environment. While Ms. Grant, Ms. Lewis and Mr. Sullens were distinguished for their work anniversaries, each member of the Authority staff should feel good about creating a setting to which one can enjoy returning, day after day, year after year.

Mark Hopkins presented Mae Jeffries-Grant, Wanda Lewis, and Gene Sullens (at right) with a token of appreciation



Also due for congratulations are two employees who received promotions with the start of 2005. Ronald S. Marmelstein was promoted to Senior Account Administrator, and Lorraine M. Donohue was promoted to Office Management Assistant I. The Authority Members commend them for mastering their duties and wish them luck in their new responsibilities.



Ron Marmelstein (right) working with Project Manager Bill McLaughlin



Lorraine Donohue

Authority staff members are often asked to present at conferences and seminars throughout the year. In November 2004, Steve Fillebrown, Director of Research, Investor Relations and Compliance, presented at Smith's Research and Ratings 2004 Healthcare Finance Conference in Boston about the current challenges and opportunities facing hospitals and secondary market disclosure.

Mark Hopkins will be presenting at the Healthcare Financial Management Association conference on June 14, 2005. If you would like more information about a presentation, or would like to request an Authority presenter for an event, send an email to szschunke@njhcffa.com. §

COMMISSIONER JACOBS

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American College of Chest Physicians and the American College of Legal Medicine.

In 1969, he joined the staff at Saint Barnabas Medical Center in New Jersey where he has been Chief of Pulmonary Disease, Medical Director of the Intensive Care Unit, and President of the Medical Staff (elected in 1987). Subsequently, he became Senior Vice President for Medical Affairs at Saint Barnabas, and later, Executive Vice President for Medical Affairs for the Saint Barnabas Health Care System.

He has also held many faculty positions, including Clinical Associate Professor of Medicine at the University of Medicine and Dentistry of New Jersey. In 1990, Dr. Jacobs graduated from Rutgers University School of Law in Newark. He is admitted to the Bar of the States of New Jersey and Florida.

Dr. Jacobs was appointed to the New Jersey State Board of Medical Examiners by Governor Thomas Kean in 1989 and was reappointed by Governor James Florio in 1993. He served as President of the Board from 1993 to 1995.

The Authority's ex-officio Members are permitted to designate long-term representatives to attend meetings and vote on their behalf. Dr. Jacobs reappointed Edward Tetelman to serve as the Department of Health and Senior Services designee for Authority business. Mr. Tetelman was also the designee appointed by former Commissioner Clifton R. Lacy, M.D. §

LACY TO RWJUH

Congratulations to former Health and Senior Services Commissioner Clifton R. Lacy, M.D. who was named President and CEO of Robert Wood Johnson University Hospital.

Dr. Lacy was the Board of Director's unanimous choice to succeed the retiring Harvey Holzberg. § Lacy (left) and Holzberg



2004 Completed Bond Issues	Issue Structure	Par Amount
Underwood-Memorial Hospital	Two tranches: Both 7-day auction rates	\$65,300,000
Hackensack University Medical Center	Two tranches: 7-day and 35-day auction rates	\$150,000,000
Bayshore Community Hospital	COMP V Program: weekly variable rate	\$8,000,000
Beth Israel Hospital Assoc. of Passaic	COMP V Program: weekly variable rate	\$13,300,000
Meridian Nursing & Rehab. at Red Bank	COMP V Program: weekly variable rate	\$14,725,000
South Jersey Hospital, Inc.	COMP V Program: weekly variable rate	\$15,075,000
Atlantic Health System	Taxable bonds, 7-day PARS auction rate mode	\$26,300,000
Robert Wood Johnson Univ. Hospital	Weekly variable rate	\$50,000,000
Virtua Health, Inc.	Weekly variable rate	\$60,000,000
St. Clare's Hospital	Two tranches: Both fixed rates	\$104,000,000
Total 2004 Debt Issued:		\$506,700,000

FINANCING NOTES

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those in need of treatment for alcoholism, drug addiction and compulsive gambling.

The proceeds will be used to construct and equip a 260-bed facility in Marlboro to house two separate residential treatment programs with common recreational, medical, reception and commissary facilities.

Security for the bonds was provided by a direct pay letter of credit from Commerce Bank, with whom Discovery and New Hope entered into a guaranty agreement. The bonds were structured as variable rate demand notes with an interest rate reset every seven days and have a final maturity date of March 1, 2030.

The initial rate was set at 1.98%, equal to the Bond Market Association index. While Authority variable rate issues using credit support typically trade at levels below the BMA index, Commerce Bank's split rating results in

slightly higher rates when their letter of credit is used. The 1.98% rate is consistent with other variable rate issues using Commerce letters of credit.

The CAP

On January 12, 2005, the Authority

closed a \$1,500,000 loan on behalf of the **Cerebral Palsy Center of Bergen County**, also known as The Children's Therapy Center. The funds were provided through the Authority's Capital Asset Loan Program ("CAP"), which takes advantage of bonds issued prior to the 1986 tax law changes. When loans under the program are repaid, funds become available for other health care organizations in need of capital.

JPMorgan Chase Bank, provider of the credit and liquidity support for the CAP,



Another successful closing at the Authority: The Cerebral Palsy Center of Bergen County, borrowing funds for the very first time, chose the Authority's CAP Program.

performed an independent credit analysis and approved the loan subject to the borrower providing a first mortgage lien on the facility, a gross revenue pledge and a lien on the fund raising pledges and receivables.

The loan will finance new classroom construction, the expansion of occupational, physical and speech therapy treatment areas, the addition of a parent waiting room and parent/staff conference room, and various upgrades to the physical plant. §

APOLLO REPORTS: RESULTS FOR THIRD QUARTER 2004

By Steve Fillebrown, Director of Research, Investor Relations and Compliance



APOLLO is a database that includes information on 66 hospitals or hospital systems, covering 100% of the acute care hospitals in New Jersey.

Here are my observations on the financial condition of New Jersey's hospitals, based on the APOLLO Reports for the third quarter of 2004.

Trends in Statewide Medians

Although the declines were small, third quarter profitability numbers continued an 18-month trend of decreasing margins. The median operating margin dropped to negative .04% (from .25%), meaning that half of the hospitals in the state lost money from operations. Median profitability also dropped from .83% to .63%. Median debt service coverage was stable at 2.46.

In contrast to profitability, most liquidity measures improved in the third quarter. Median cash on hand increased by one to 84 days, receivables decreased two days further to 53 days, and payables dropped two days to 61 days. Leverage ratios were mixed, with debt to capitalization slightly improved but debt to fixed assets up.

Since most of the quarter-to-quarter changes have been small, the overall financial performance has essentially been stable throughout 2004. However, the low levels of profitability are an area of concern. The increased charity care payments began in mid-August but the full effects have not been realized yet. Also, the new Medicare wage regulations started on October 1, 2004, will yield additional revenues in the fourth quarter. Whether these are enough to move profitability to healthier levels remains to be seen.

Differences in Performance Across New Jersey Hospitals

Mid-size hospitals (200-399 beds) continued to post weaker margins than large or small hospitals; in fact, both median

operating and profit margins for this group were negative. Similarly, the disparity in operating and profit margins continued for non-teaching hospitals in comparison to major and minor teaching facilities.

Surprisingly, the biggest drop in margins occurred at hospitals serving upper income populations. The median margins for hospitals in low-income populations improved, although most balance sheet ratios remain substantially worse for this peer group. The increase in charity care payments is not a likely explanation for these margin differences, since the increases are across the board. §

APOLLO is an Authority designed and operated database that includes financial information and characteristics on acute care New Jersey hospitals. The Authority uses the data to monitor financial trends among New Jersey's health care providers. Quarterly postings can be viewed on the Authority's website at www.njhcfra.com/reports.htm.

PREVAILING WAGES *(continued from page 1)*

tures, investments, incentives or other financial assistance provided, authorized or administered by the authority." Thus, the Authority is required to mandate the payment of prevailing wages in its bond documents to further ensure that New Jersey's workers receive the wages and benefits to which they are due.

In order to comply, borrowers must now provide, in all contracts worth \$2,000 or more, that:

1. Contractors and sub-contractors permit the Department of Labor and Workforce Development, or a designated agent, complete access to payroll and other records for purposes of determining compliance; and,
2. Contractors and sub-contractors keep accurate records of the names, trades, and actual hourly wages paid to each worker employed in the contract, preserving such records for two years after the project's completion.

Also, upon completion of a project, borrowers must submit a signed certificate to the Authority confirming either that the bor-

For information on the new prevailing wage statute, visit:
www.njleg.state.nj.us/2004/Bills/AL04/127_.HTM

rower, its contractors, and its sub-contractors complied with the above provisions, or that the borrower had not entered into any construction contracts subject to the provisions.

If contracted workers are paid less than the prevailing wage rate and it is not rectified upon notice by the Authority or the Commissioner of Labor, the Authority must terminate the borrower, contractor, or sub-contractor's right to proceed with the work. The Act permits the Authority to complete the project and hold the borrower, contractor, or sub-contractor liable for all resulting excess costs.

At its February meeting, the Authority approved draft regulations and authorized staff to submit them to the Office of Administrative Law in accordance with the Administrative Procedure Act. The proposed regulations are scheduled to be published in the New Jersey Register on April 18, 2005 with a comment period ending June 20, 2005. §



SENIOR NJHCFFA STAFF

Mark E. Hopkins
Executive Director

Dennis P. Hancock
Deputy Executive Director,
Director of Project Management

Stephen M. Fillebrown
Director of Research, Investor Relations and
Compliance

James L. Van Wart
Director of Operations and Finance,
Custodian of the Public Record

NJHCFFA MEMBERS

Ex-Officio Members

Fred M. Jacobs, M.D., J.D. · Chairman · Commissioner of Health and Senior Services

Donald Bryan, J.D. ·
Acting Commissioner of Banking and Insurance

James Davy ·
Commissioner of Human Services

Public Members

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